Wolters Kluwer

CT Corporation

Business Structure Basics

Review this helpful chart for a comparison of the most common types of business structures.

Characteristics	Sole Proprietorship	General Partnership	Limited Partnership	Limited Liability Partnership	C Corporation	S Corporation	Limited Liability Company
Formation	No state filing required.	Agreement between two or more parties. No state filing required.	State filing and appointment of registered agent required.	State filing and appointment of registered agent required. Some states limit LLPs to licensed professionals.	State filing and appointment of registered agent required.	State filing and appointment of registered agent required. IRS election required.	State filing and appointment of registered agent required.
Duration of Existence	Dissolved if entity ceases doing business or upon death of the sole proprietor.	Dissolves upon death or withdrawal of a partner, unless safeguards are specified in an agreement.	Death or withdrawal of general partner triggers dissolution unless partnership agreement provides otherwise; death of limited partner does not trigger dissolution.	Dependent on the requirements imposed by the state of formation.	Perpetual, unless otherwise stated in articles of incorporation.	Perpetual, unless otherwise stated in articles of incorporation.	Perpetual, unless otherwise stated in formation documents.
Liability	Sole proprietor has unlimited liability.	Partners have unlimited liability.	At least one general partner has unlimited liability.	Partners are not typically responsible for the debts of the LLP.	Shareholders are typically not responsible for the debts of the corporation.	Shareholders are typically not responsible for the debts of the corporation.	Members are not typically responsible for the debts of the LLC.
Operational Requirements	Relatively few legal requirements.	Relatively few legal requirements.	Some formal requirements, but less formal than corporations.	Certain states require an LLP to carry insurance or an escrow.	Board of Directors, annual meetings, and annual report.	Board of directors, annual meetings, and annual report.	Few formal requirements for meetings and management structure. Annual report is generally required.
Management	Sole proprietor has full control of management and operations.	Typically each partner has an equal voice, unless otherwise arranged.	Limited partners are excluded from management other than actions specifically allowed under state law.	All partners have the right to manage the business directly.	Managed by directors who are elected by shareholders.	Managed by directors who are elected by shareholders.	Can be managed by members or by managers selected by members.
Taxation	Not a taxable entity. Sole proprietor pays all taxes.	Not taxed at entity level, but partnership tax return must be filed.	Not taxed at entity level, but partnership tax return must be filed.	Not taxed at entity level, but partnership tax return must be filed.	Taxed at entity level. Corporate tax return must be filed.	Generally not taxed at entity level; but S corp tax return must be filed.	Not taxed at entity level unless election to be taxed as corporation is made. LLC tax return must be filed.
Pass-through Income/Loss	Yes.	Yes.	Yes.	Yes.	No.	Yes.	Yes.
Double Taxation	No.	No.	No.	No.	Yes, if income distributed to shareholders as dividends.	No.	No.
Cost of Creation	None.	None.	State filing fee required.	State filing fee required.	State filing fee required.	State filing fee required.	State filing fee required.
Equity Financing	Often difficult unless individual contributes funds.	Contributions can be made from partners, and more partners can be added.	Contributions can be made from partners, and more partners can be added.	Contributions can be made from partners, and more partners can be added.	Shares of stock are sold to raise capital.	Shares of stock are sold to raise capital subject to IRS restrictions on stock ownership.	Possible to sell interests, though subject to operating agreement restrictions.
Transferability of Interest	No.	Yes, if provided for in partnership agreement and approved by other partners.	Yes, pending approval of other limited partners and the general partners.	Possible, dependent on partnership agreement restrictions.	Shares of stock are freely transferable subject to provisions in bylaws.	Shares of stock are freely transferable subject to provisions in bylaws and IRS restrictions on stock ownership.	Possible, dependent on operating agreement restrictions.

CTcorporation.com